

HOUSING MARKET OUTLOOK

Kitchener and Guelph CMAs



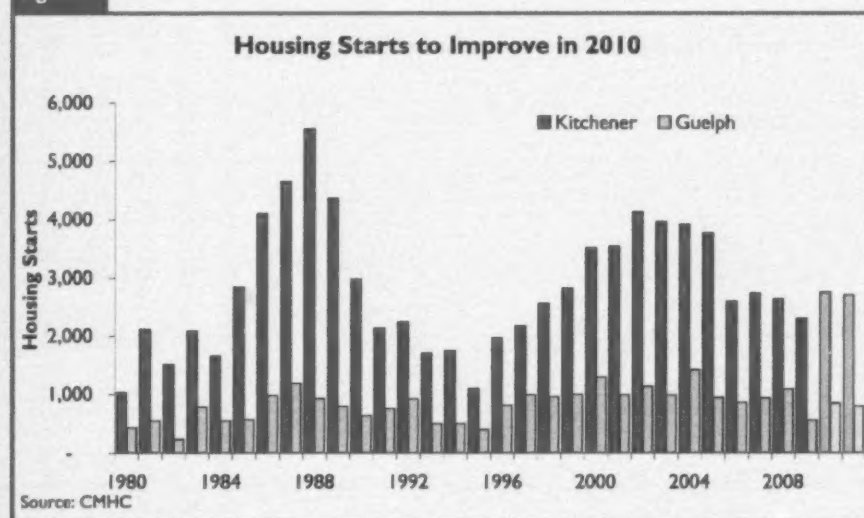
CANADA MORTGAGE AND HOUSING CORPORATION

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Market at a Glance

- Sales will continue at a strong pace through the first half of 2010 before moderating later this year and into 2011.
- Listings will respond to increasing home prices resulting in more balanced markets by 2011.
- New home construction will increase significantly in 2010, but will remain below levels recorded between 2000 and 2005.
- Low interest rates, population growth and a slightly better job market outlook will support housing demand through 2010.

Figure 1



¹ The forecasts included in this document are based on information available as of April 23, 2010.

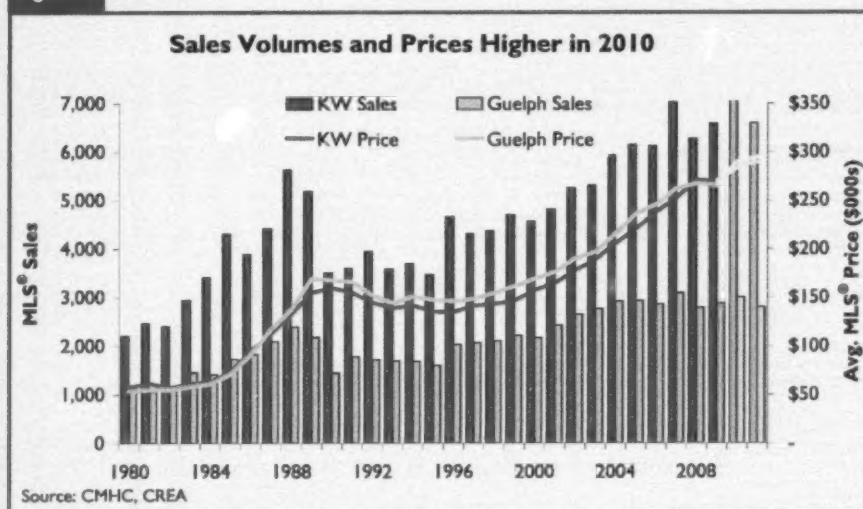
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Figure 2



Resale Home Market

Resale Volumes New Record In KW

The resale home market in Kitchener-Guelph will be very strong this year, before moderating in 2011. Sales of existing homes through KWREB will increase about nine percent in 2010 and set a new record. Sales of existing homes through Guelph and District REB will increase at about half of Kitchener's rate. In 2011, sales will decline moderately in both markets due to increased mortgage rates and the fact that many homebuyers moved their home purchases forward into 2010.

The high level of sales that were recorded in the first few months of 2010 will not be sustained throughout the rest of this year, as sales will be impacted by higher mortgage rates. The HST that will begin in July 2010 may also have caused some sales to be brought forward from the second to the first half. In the resale market, the HST will impact real estate agent fees, lawyer's fees and other services. Homebuyers returned to the market

in 2010 due to the low mortgage rates and many have brought their home purchases forward in anticipation of the increase in mortgage rates in the second half of 2010 and into 2011. Affordability will continue to play a major role in the strong level of sales through the spring and summer this year, but will slowly erode later this year and into 2011 as both as an increase in mortgage rates and higher prices combine to boost the cost of home ownership. Moreover, the pool of potential first-time buyers

will diminish as this segment remains very price sensitive. Many were able to enter the market when mortgage rates dropped in early 2009 and completed their purchase in the latter part of 2009 and early 2010.

Listings Will Respond to Price

The supply of resale homes will move higher in 2010, reaching very strong levels. KWREB listings will increase to a record 11,500, while Guelph listings will increase to a strong 4,500. In 2011, although price growth will decelerate, new listings will remain at these same high levels.

With the market favouring sellers, homeowners are seeing many advantages for listing their homes: multiple offers pushing home prices higher, fewer days on the market, and low mortgage rates.

Home Price Trend Will Flatten

The gap between sales and new listings will widen later this year as sales ease and listings move higher. A tight resale market in the first half of the year

Figure 3

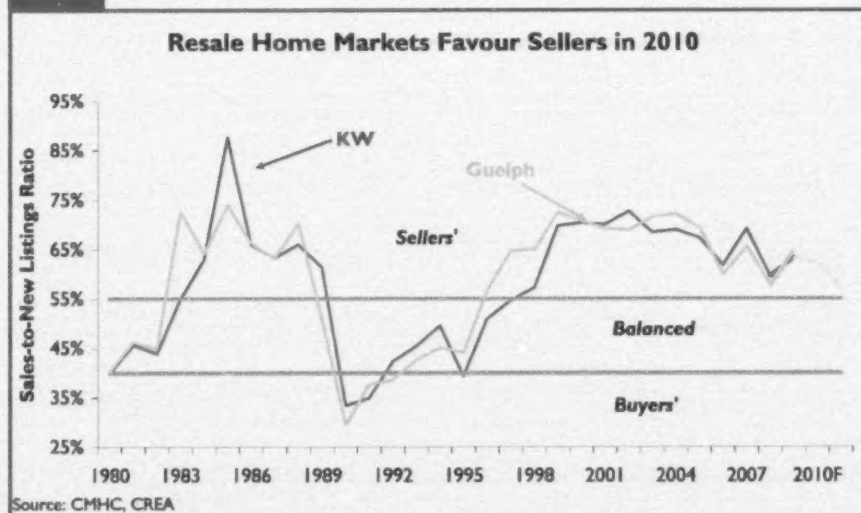
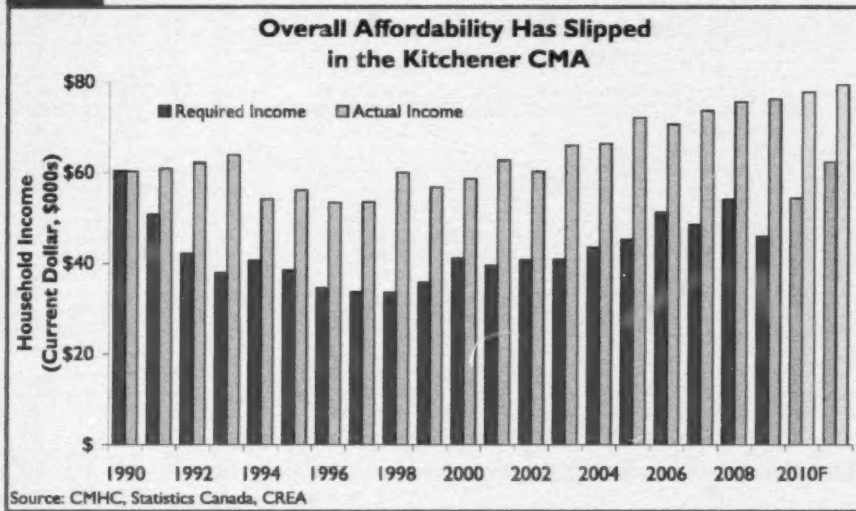


Figure 4



will support stronger price growth in 2010. While the resale market will favour sellers through the first half of the year, it will return to more balanced conditions in the latter part of the year supporting a slower pace of price appreciation. Move-up buyers who are less price sensitive and, who favour homes in the higher price ranges, rather than first-time buyers, will dominate the market. The greater proportion of higher-priced homes will pull up the average price. As the market will become more balanced in 2011, price growth will slow.

New Home Market

Housing Starts Jump

Housing starts in the Kitchener and Guelph Census Metropolitan Areas (CMAs) in 2010 will increase substantially from the 2009 levels, which were the lowest in more than ten years. Starts will slip slightly in both communities in 2011. Both single-detached and higher density housing will show growth this year. Spill-over from the resale home market, low mortgage rates, low inventories and an

improving economy will combine to propel housing starts higher in 2010. Higher mortgage rates, more choice in the resale market and fewer first-time buyers explain the 2011 slide. Over the next few years, with an improved economy and stronger migration, starts will trend higher and move more in line with population growth and household formation.

In the Kitchener-Guelph area, single-detached housing starts will increase in 2010. Although stronger this year, detached starts remain well below average. In the Kitchener CMA, registered lots for detached homes are at the lowest level in five years and will impact the level of construction moving forward. In both CMAs, single-detached starts account for a 47 per cent share of total housing starts and are an important indicator of the strength of the housing market. Some homebuyers have brought forward their intentions to buy a home due to the expectation that mortgage rates will increase and that costs associated with the introduction of the HST in July will rise. The HST will be applied to new houses priced above \$400,000

as well as fees associated with the sale transaction. More than 20 per cent of new houses in both CMAs are sold above the \$400,000 threshold. Low mortgage rates, combined with limited price growth for new homes, mean that new homes remain price competitive. In addition, inventories of new homes have declined from 2009 levels and the stronger demand for detached homes must result in new construction, both to meet the demand and to replenish the low inventories.

The average price of a newly completed single-detached home in the Kitchener CMA will increase to \$372,000 and to \$373,000 in the Guelph CMA. Although the average price in the Kitchener CMA did decline somewhat during the economic downturn, the average price has regained all of the losses incurred and more. Stronger new home construction demand and higher construction costs will push prices higher. Demand for homes priced above \$350,000 has increased as more move-up buyers are active in the market. Price growth will seem stronger this year as more expensive homes are being sold compared to 2009 when more modest homes were more popular. The New Home Price Index (NHPI), which measures the change in the price on constant quality homes, is expected to increase by two per cent in 2010.

Construction will also increase for semi-detached homes, townhouses and apartments. Apartment starts will increase substantially in both CMAs, due to the increase in construction of condominium apartments. Condominium apartments are a more affordable alternative to other types of ownership housing and attractive

to retirees, empty-nesters and first-time buyers. Rental apartment starts in the Kitchener CMA will continue at the same pace of construction as in the past couple of years. Apartment construction is in line with the goal to direct a greater share of development towards built-up areas. Construction of other low-rise housing types will also perform well in 2010. In the Kitchener CMA, townhouse construction will decline slightly, but will somewhat be offset by an increase in semi-detached starts. In the Guelph CMA, townhouse construction will double in 2010.

Local Economy

A Slow Recovery

The outlook for the economy has improved. The Ontario economy is expected to grow 3.3 per cent in 2010 and 3.0 per cent in 2011. Government spending will continue to support the provincial economy, while consumer spending and exports will improve. Kitchener CMA business bankruptcies were down marginally in 2009, a sign that businesses adapted quickly as sales diminished and are in a position to invest and expand as demand recovers. Consumer bankruptcies were up 46 per cent in 2009 compared to 2008, but below the increase recorded during the last recession.

Labour Market Improving

The job market in the Kitchener-Guelph area is expected to recover slowly throughout most of 2010, but will be more buoyant in 2011. Employment in the Kitchener CMA will increase throughout 2010, but overall, employment is forecast to increase only one per cent in 2010.

Employment in the Kitchener CMA fell further than employment in Ontario given the relative importance of manufacturing, the sector most affected by the downturn. The return to 2008 employment levels will also take longer. Guelph CMA employment is forecast to increase two per cent in 2010. With labour force growth expected to be slightly lower than employment growth, the unemployment rate will move lower in both CMAs in 2010, but will in the case of the Kitchener CMA remain above the Ontario average.

While employment in the goods-producing sector continued to contract, the service sector fared much better. Industry data at the provincial level indicates output in the goods sector increasing, implying that productivity is improving. As the US and world economies improve in 2010, demand for manufactured goods will increase. Government infrastructure spending, several non-residential projects and higher homebuilding, will boost employment in the construction sector in both CMAs in 2010.

Although unemployment will remain high in 2010, wage growth in the Kitchener and Guelph CMAs is expected to be near two per cent in 2010. In 2011, expect average weekly earnings to increase by another two per cent in both CMAs.

Migration Keeps Population Growing

Population growth is key for housing demand. Population growth in the Kitchener and Guelph CMAs has been driven by both migration and natural increase. The Kitchener and Guelph CMAs will remain attractive to migrants. Net migration into the Kitchener CMA is expected to reach close to 3,500 persons in 2010 and around 700 in the Guelph CMA. International migration has been the driving force behind migration to the area due to the diverse economy and high employment rates. A global economic recovery will cause uncertainty to diminish and will support more international travel and immigration into Canada. While inter-provincial migration, especially

Figure 5

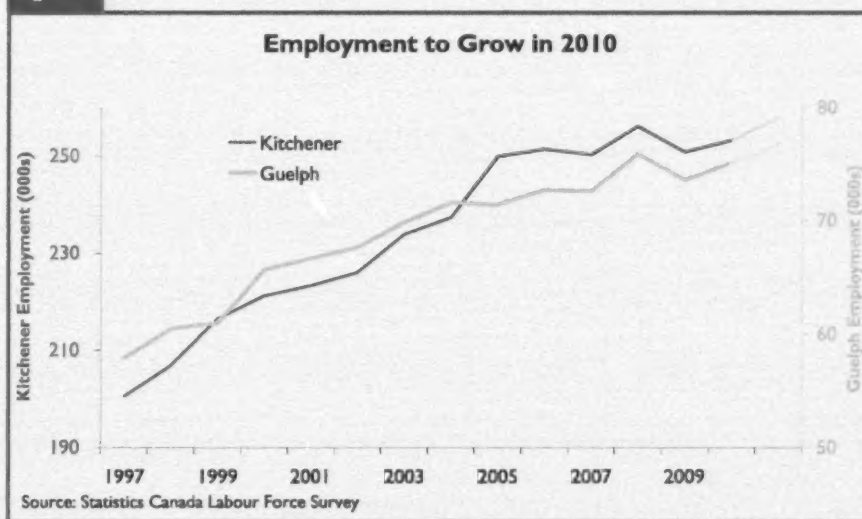
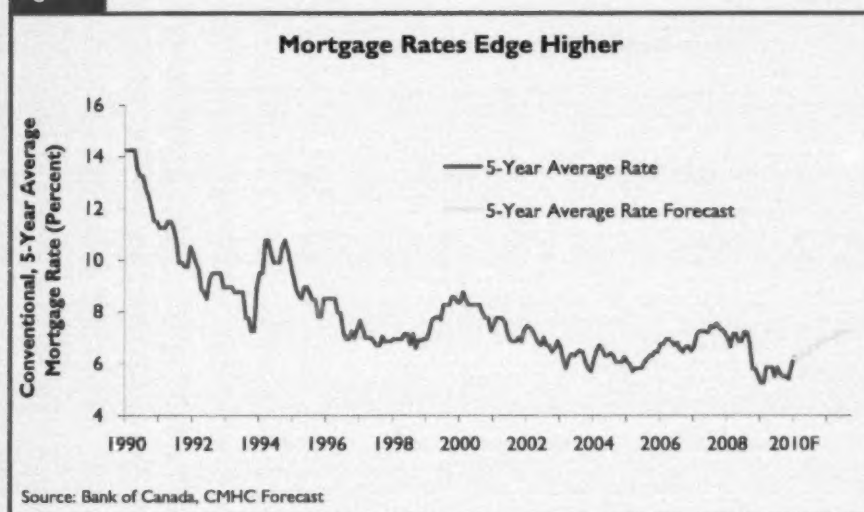


Figure 6



to Western Canada, has slowed population growth, over the last several years, the house price differential between the Toronto and the Kitchener-Guelph area has been one of the main factors driving intra-provincial migration. In fact, almost a quarter of all migrants are from the Toronto CMA. Intra-provincial migration will grow as the unemployment rate begins to decline.

Mortgage Rate Outlook

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. Looking ahead, we expect that short-term interest rates will begin to rise in the second half of 2010.

With the overnight rate expected to increase in the coming months, mortgage rates have begun to rise. According to CMHC's base case scenario, posted mortgage rates will gradually increase throughout the course of 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate is assumed to be in the 3.6-4.8 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2-6.7 per cent range. For 2011, the one-year posted mortgage rate is assumed to be in the 5.0-6.0 per cent range, while three and five-year posted mortgage rates are forecast to be in the 5.6-7.2 per cent range.

Rates could, however, increase at a faster pace if the economy recovers more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Forecast Summary Kitchener CMA Spring 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	7,031	6,269	6,580	7,150	8.7	6,600	-7.7
MLS® New Listings	10,164	10,521	10,387	11,500	10.7	11,500	0.0
MLS® Average Price (\$)	252,429	271,222	269,552	284,900	5.7	290,000	1.8
New Home Market							
Starts:							
Single-Detached	1,159	1,446	1,161	1,300	12.0	1,250	-3.8
Multiples	1,581	1,188	1,137	1,450	27.5	1,450	0.0
Semi-Detached	234	82	62	100	61.3	100	0.0
Row/Townhouse	594	569	565	500	-11.5	500	0.0
Apartments	753	537	510	850	66.7	850	0.0
Starts - Total	2,740	2,634	2,298	2,750	19.7	2,700	-1.8
Average Price (\$):							
Single-Detached	345,819	352,644	345,289	372,000	7.7	378,000	1.6
New Housing Price Index (% chg.)	1.5	2.4	0.6	2.0	-	1.5	-
Rental Market							
October Vacancy Rate (%)	2.7	1.8	3.3	3.1	-0.2	2.8	-0.3
Two-bedroom Average Rent (October) (\$)	829	845	856	870	-	890	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	4.23	0.21	5.56	1.33
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	6.20	0.57	7.06	0.86
Annual Employment Level	250,300	256,100	250,800	253,200	1.0	258,000	1.9
Employment Growth (%)	-0.4	2.3	-2.1	1.0	-	1.9	-
Unemployment rate (%)	5.5	6.0	9.5	9.0	-	8.5	-
Net Migration	2,994	3,802	3,558	3,500	-1.6	3,500	0.0

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** Percent change > 200%

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

Forecast Summary Guelph CMA Spring 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	3,088	2,794	2,878	3,000	4.2	2,800	-6.7
MLS® New Listings	4,704	4,830	4,456	4,700	5.5	4,700	0.0
MLS® Average Price (\$)	262,186	267,329	265,799	290,000	9.1	295,000	1.7
New Home Market							
Starts:							
Single-Detached	575	425	299	400	33.8	350	-12.5
Multiples	366	662	268	450	67.9	450	0.0
Semi-Detached	58	44	74	60	-18.9	60	0.0
Row/Townhouse	274	160	124	250	101.6	250	0.0
Apartments	34	458	70	140	100.0	140	0.0
Starts - Total	941	1,087	567	850	49.9	800	-5.9
Average Price (\$):							
Single-Detached	360,882	371,957	367,011	373,000	1.6	378,000	1.3
New Housing Price Index (% chg.) (Ont.)	2.6	3.5	0.1	n/a	-	n/a	-
Rental Market							
October Vacancy Rate (%)	1.9	2.3	4.1	3.9	-0.2	3.6	-0.3
Two-bedroom Average Rent (October) (\$)	848	869	874	887	-	905	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	4.23	0.21	5.56	1.33
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	6.20	0.57	7.06	0.86
Annual Employment Level	72,600	75,900	73,800	75,100	1.8	76,800	2.3
Employment Growth (%)	-0.1	4.5	-2.8	1.8	-	2.3	-
Unemployment rate (%)	5.7	5.5	8.2	8.2	-	8.0	-
Net Migration	372	815	708	700	-1.1	700	0.0

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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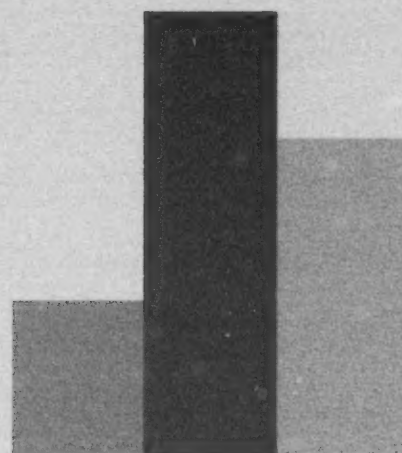
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